Tuesday, November 1, 2011 Live updates plus informed analysis telegraph.co.uk/finance

Business

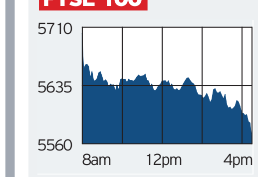
Double trouble Will the UK avoid second recession? Jeremy Warner B5

Crazy Diamond? Barclays chief banking on a recovery Alistair Osborne B2

60 SECOND BRIEFING

MARKETS

FTSE 100



5544.22
-158.02 -2.77pc

2011 High	6091.33	
2011 Low	4944.55	
Yield	3.43pc	+0.10
P/E ratio	10.01	-0.29

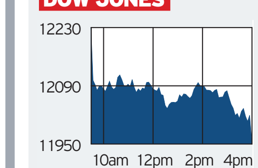
The market sprang a leak as optimism over last week's pact to resolve the euro crisis evaporated, on fears over the detail.

MARKET REPORT B7 »

BIGGEST RISER
GLAXOSMITHKLINE
1400p
+16p (1pc)

BIGGEST FALLER
VEDANTA RES
1278p
-126p (9pc)

DOW JONES



11955.01
-276.10 -2.26pc

US stocks declined, led by banks, amid renewed jitters about the health of the financial sector. China also downplayed any role of white knight.

OTHER MARKETS

FTSE 250	10479.74	-293.33
FTSE All-share	2860.86	-80.49
Yield	3.34	+0.09
FTSE Eurotop 100	2082.25	-45.16
Nikkei	8988.39	-62.08
DJ Eurostox50	2385.22	-77.14
S&P 500	1253.30	-31.78
Nasdaq	2684.41	-52.74

CURRENCIES

	£ €	£ $
RATE	1.1571	1.6141
CHANGE	+1.81c	-0.06c

FULL LISTING B5 »

COMMODITIES

GOLD
$1722 (£1073)
-22.00 -1.26pc

BRENT CRUDE
$109.56 Dec
-0.35 -0.32pc

Second-biggest G4S investor votes against ISS deal

By Graham Ruddick and Katherine Rushton

THE second largest shareholder in G4S has confirmed it has voted against the controversial £5.2bn acquisition of ISS, leaving one of the biggest takeovers by a British company since the recession hanging by a thread.

In a brief statement, the respected chief investment officer of Harris Associates, David Herro, said he "cannot support" the acquisition of catering and cleaning company ISS. The deal suffered a further blow last night when executives close to the acquisition admitted privately it was all but dead. Also last night G4S's board met to decide whether to press ahead with the deal.

US fund manager Harris joins a growing list of confirmed dissenters against the deal, including Parvus, Schroders, Artemis and the Co-Op. Between them, they own almost 15pc of G4S but privately other investors from the US, Denmark and UK have also expressed concerns.

Harris owns 5pc of G4S and is the second largest shareholder behind Prudential.

Mr Herro said: "Despite the fact we have a great deal of respect for Nick Buckles and the G4S management team, we cannot support the acquisition of ISS under the stated terms and have voted no."

Chief executive Nick Buckles was understood to be having last gasp discussions with investors yesterday in an attempt to salvage the deal, while advisers held meetings after the afternoon deadline for proxy votes passed.

The Telegraph
Follow the G4S story as it develops telegraph.co.uk/finance

G4S needs 75pc of voters to support the deal at a shareholder meeting tomorrow, meaning the proposed acquisition of ISS is in serious doubt and the company is under pressure to scrap the vote. Mr Buckles could decide to press ahead with the meeting, if he believes other shareholders will support him, or alternatively scrap the deal or seek to renegotiate terms with ISS. A spokesman insisted the company is "following the process that we set out on 17 October and continuing to meet shareholders ahead of the general meeting ".

Kames Capital, formerly known as Aegon, said that it was backing the deal. In an emailed statement last night, the fund manager, which owns 1.6pc of G4S, said: "I can confirm that we have met with the company and we believe the underlying business is very strong. We believe the deal will go through and the combined group will be well positioned going forward."

Other shareholders have been rattled by the £2bn rights issue and £3.7bn debt facility required to finance the deal. They fear the company is overstretching itself and think G4S should focus on its core business of security. Another top 20 investor said Mr Buckles "has been surprised at the [shareholder] reaction, which is interesting."

MF Global files for bankruptcy as euro bets fail

US broker's collapse causes global shockwaves, driving FTSE down 2.8pc and the Dow 2.3pc

By Richard Blackden in New York

MF GLOBAL, a futures broker that began life trading sugar in 18th century London, has filed for bankruptcy protection in New York after its billion-dollar bets on European government debt extinguished confidence in the company.

The company's decision to seek Chapter 11 bankruptcy protection in a Manhattan court yesterday came after chief executive Jon Corzine's frantic efforts to find a buyer over the past 48 hours failed.

The bankruptcy filing, which listed its debts at $39.7bn, makes MF Global the biggest US casualty yet of Europe's debt crisis and leaves almost 3,000 staff on both sides of the Atlantic facing an uncertain future.

The speed of MF Global's demise stunned many observers. Last Tuesday, it reported a $191.6m quarterly loss and insisted its $6.3bn of exposure to the debt of European governments was manageable.

However, the markets were not convinced and MF Global shares plunged almost 70pc last week and both Moody's and Fitch cut the company's credit rating to junk.

"If you're a broker dealer and you're cut to junk, that's it," said Patrick O'Shaughnessy, an analyst at Raymond James who covered MF Global. "Your funding costs go up and some people just won't lend to you."

As MF Global filed for bankruptcy in the US, the Financial Services Authority established a Special Administration Regime (SAR) to handle the company's Canary Wharf-based UK business. It is the first time SAR has been used since its creation after the 2008 collapse of Lehman Brothers and is designed to speed up the return of assets to creditors and improve cross-border co-operation between authorities. KPMG has been appointed administrator in the UK.

INSIDE
Chief's bad bets; Paranoia rife in London office B4-5

ONLINE
For the latest news on MF Global
telegraph.co.uk/finance

Although MF Global's collapse is nowhere near the scale of Lehman, it was enough to rattle global stock markets already concerned about the Italian government's ability to drive through reforms agreed at last week's European debt summit.

A day of turmoil ended with the FTSE 100 closing down 2.8pc and Italy's MIB falling 3.8pc. On Wall Street, the Dow Jones Industrial Average was down 2.3pc in late afternoon trading.

The dramatic events of the past few days are a stunning blow to Mr Corzine, whose career saw him jointly run Goldman Sachs in the 1990s and includes spells as a senator and later governor of New Jersey.

In March 2010 Mr Corzine took over MF Global with the intention of transforming it from a broker into an investment bank trading on its own account that would, in time, compete with the likes of Goldman and Morgan Stanley.

MF Global began building positions in European government debt last year, drawn to the spike in yields as fears over Europe's monetary system grew.

It is understood its problems were compounded by a trade that saw the broker bet the price of Italian government bonds would go up and the cost of insuring against a default by France would fall.

Filing for bankruptcy protection frees MF Global from any immediate need to pay debts and bills accrued before the filing.

JP Morgan Chase and Deutsche Bank are both trustees for bondholders with more than $1bn of MF Global debt.

Fiesta time: the Latin American country is expected to become the world's sixth largest economy

Italy's bond yields enter danger zone

ANALYSIS

By Ambrose Evans-Pritchard

ITALY'S borrowing costs have once again surged to danger levels amid growing doubts over the viability of Europe's bail-out machinery, dashing hopes that last week's summit deal would contain the crisis.

Yields on 10-year bonds jumped to 6.18pc while spreads over German Bunds reached 410 basis points, nearing the critical level where LCH.Clearnet raises margin requirements.

Giovanni Bazoli, chief of Banca Intesa Sanpaolo, said the spreads are unsustainable "not just in the medium run, but in the short run as well".

The renewed jitters came as the OECD slashed its eurozone growth forecast for next year from 2pc to just 0.3pc, implying an outright recession over the winter.

The body called on the European Central Bank to cut interest rates and deploy its full lending power to head off debt contagion.

The OECD said the world risks a fresh crisis of equal magnitude to the Great

Continued on B4

Greece to vote on rescue package

By Philip Aldrick and Richard Blackden

GREECE is to hold a referendum on whether to accept the rescue package from the European Commission, European Central Bank and International Monetary Fund troika.

Responding to the riots that followed last week's proposal, as well as dissent from within his own Socialist party, Prime Minister George Papandreou said: "The command of the Greek people will bind us. Do they want to adopt the new deal, or reject it? If the Greek people do not want it, it will not be adopted."

Staging a referendum threatens to throw the eurozone further into crisis as the majority of Greeks object to the bail-out, according to a survey published last week.

If Greece was to reject the plan, which requires deep spending cuts, it would risk a full-scale default and possible ejection from the euro. The country could even run out of money to pay civil servants or state pensions if the troika decided to pull the plug.

The decision by the embattled Mr Papandreou has the potential to be a major blow to efforts by German chancellor Angela Merkel and French President Nicolas Sarkozy to tame a crisis that most economists expect to push Europe back into recession in coming months. The move is also likely to rattle investors

Continued on B3

Brazil poised to overtake UK

By Robin Yapp in Sao Paulo and Philip Aldrick in London

BRAZIL is forecast to overtake the UK to become the world's sixth biggest economy this year - dealing a blow to the beleaguered British economy on the eve of GDP data predicted to show poor growth.

The Latin American country's GDP for 2011 is expected to hit $2.44trillion (£1.51trillion) compared with $2.43trillion for the UK, the latest monthly forecasts from the Economist Intelligence Unit (EIU) show.

The Telegraph
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This will see Brazil, which last year moved ahead of Italy to become the world's seventh biggest economy, gain another place to sixth, with the UK falling to seventh.

Robert Wood, the EIU's chief economist on Brazil, said the country's surge owed much to a growing consumer class and a booming trade relationship with China, based on the Asian giant's need for commodities such as soya and iron ore.

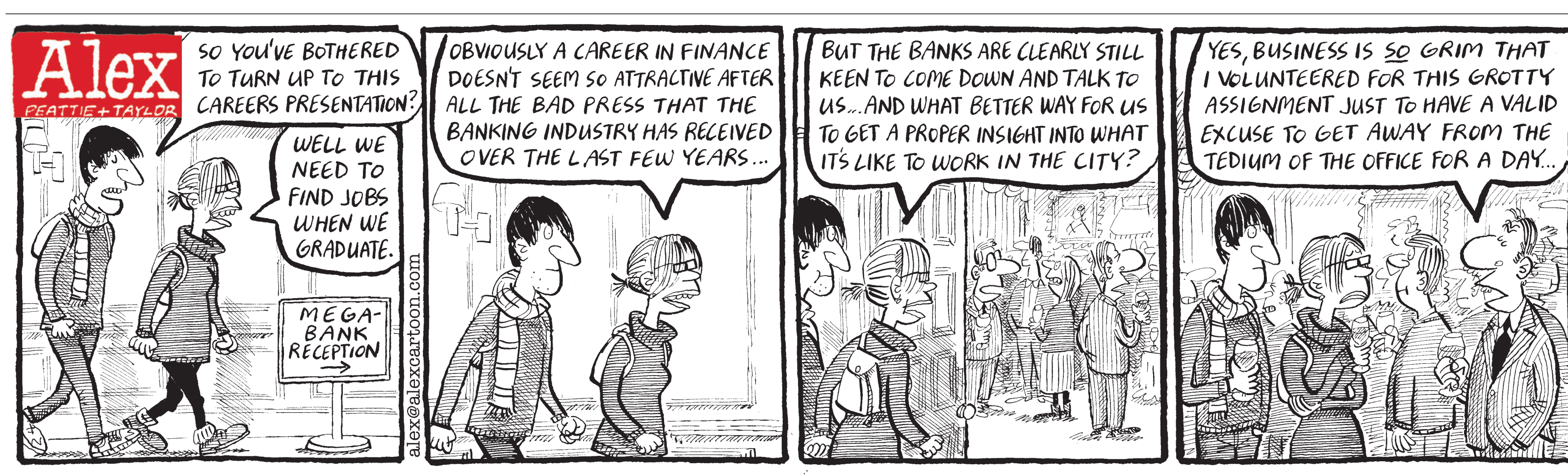
"It's partly the story of the lower income classes rising up in Brazil to join the middle class and partly the sheer size of the population of nearly 200m," said Mr Wood. "This also links in with Brazil's emergence in terms of being dragged up by demand from China. We are in the middle of a commodity super-cycle that will last for some time but, at some point, the really good times Brazil is enjoying will cool off a bit."

Britain's predicted demotion came as UBS economists warned the country is highly likely to sink back into recession next year as the economy is dragged under by an even weaker Europe, the UK's main trading partner.

The investment bank, which has cut its growth forecast for this year from 1.1pc to 0.9pc and from 1.5pc to 0.7pc for 2012, said: "The likelihood of a technical recession is high in the UK.

"The reason for the downgrade is the euro area crisis and our continued belief that the single currency region has some way to go before

Continued on B5



Alex's new book The Best of Alex 2011 **is available now. Order your copy at www.alexcartoon.com or by telephoning 020 8374 1225**